OPINION

Canada’s $1.1-trillion debt is shockingly high – it threatens all that we value

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Canada's government debt is shockingly high and the implications are not understood. In the leaders' debate during last year's federal election campaign, five topics were covered, but the national debt crisis did not even make the list. Imagine a scenario in which every year a family spends significantly more than it earns. To address the shortfall, they finance the gap with their credit cards, and the card balances increase each year. The compounding effect of the interest costs and the continual spending cause a significant accumulation of outstanding debt. The family's bank is willing to increase their card limits because they have always paid their bills. But eventually - inevitably - the family will be unable to cover even the interest payments. The credit card providers will realize the family will simply never pay off the debt in full. We know what happens next: Credit cards are cancelled, mortgages are foreclosed, sometimes personal bankruptcy is declared and all of this comes at a terrible cost to the family's well-being. It is not much different when it comes to government debt. We expect so much of our governments - federal, provincial and municipal - and we somehow think they can print more money to meet these expectations. The federal government's debt now exceeds $1.1-trillion. As of March 31, 2022, Ottawa's annual revenue was $413.3-billion and its expenses totalled $493.3-billion, meaning the government spent $80-billion more than it collected. During the peak of the COVID-19 pandemic, Ottawa's annual spending deficit was even greater, at $327.7-billion. The annual interest cost of our debt is expected to hit $26.9-billion this year and rising interest rates will push the payments higher. Provincial governments also have significant debt and deficits. So why can't the federal government simply print more money to make up the gap? Printing money historically has caused inflation, because this puts more currency into circulation to buy the same supply of goods and services. The impact for all of us is that everything costs more, and that's something we are all experiencing this year. An example occurred in Germany following the First World War. The Treaty of Versailles called for massive reparation payments by the country, which it met by printing money. This resulted in inflation of 30,000 per cent per month, with prices of goods doubling every few days. At one point, a U.S. dollar was worth 800-million German marks. Famous photos show German families burning cash, because it was cheaper than buying firewood.

In Canada, most of the shortfall in federal and provincial government debt is addressed by issuing bonds to investors. These bonds are held by many types of investors, and large numbers of them are outside Canada. They buy Canada's bonds with a belief in the relative strength of our sovereign (government) debt compared with other countries around the world. But there are many examples in which countries have seen a financial crisis as investors reassess where to invest. A recent catastrophe occurred in Greece in 2008. It was revealed that the country's debt was understated. This triggered a massive crisis of confidence among bondholders, who moved their investments to more stable countries. Greece's meltdown required a huge bailout (more than €289-billion from the European Union and the IMF), resulting in severe government cutbacks and higher taxes. The country's experience shows one of the painful consequences of runaway debt and being dependent on foreign investment: The terms of getting out of the situation are dictated to the country, not the other way around. There is precedent for elected officials taking action before it's too late. In 1979, then U.S. president Jimmy Carter appointed Paul Volcker as chair of the Federal Reserve, with an aggressive mandate to curb inflation. The president was warned that the severe short-term pain would cost him a second term. Mr. Carter did it anyway - and it did help cost him re-election. Getting out of massive debt, a slowing economy and high inflation is difficult, but it can be done. Unchecked, however, the path Canada is on almost guarantees that children and young adults today will inherit a country with such massive debt that investment will go elsewhere. While this may sound harmless, it is not. We live in a great country and there is enormous potential for our future. But problems cannot be solved by ignoring them. We need to make difficult decisions today to protect all that we value in Canada.